CANADIAN MARCONI COMPANY

69 th ANNUAL REPORT 1971

DIRECTORS

C.E. Belanger, C.A.
Senior Partner
Bélanger, Saint-Jacques, Sirois, Comtois & Cie
Sherbrooke, Canada

L.M. Daley
President and Chief Executive Officer
Canadian Marconi Company
Montreal, Canada

S. Dobb, F.C.A.
Assistant Managing Director
GEC-Marconi Electronics Limited
London, England

*S.M. Finlayson
Mayor
Town of Hampstead
Montreal, Canada

H. Hansard, Q.C.
Senior Partner
Ogilvy, Cope, Porteous, Hansard,
Marler, Montgomery & Renault
Montreal, Canada

E.O. Herzfeld
Vice-Chairman, Canadian Marconi Company
Director of Contracts
The General Electric Company Limited
London, England

H.J. Lang
Chairman and Chief Executive Officer
Canron Limited
Montreal, Canada

J.G. Notman, O.B.E.
Director
Canadair Limited
Montreal, Canada

J.E. Pateman, C.B.E., M.I.E.E.
Managing Director
Marconi-Elliott Avionic Systems Limited
London, England

I.D. Sinclair, Q.C.
Chairman and Chief Executive Officer
Canadian Pacific Limited
Montreal, Canada

R. Telford, C.B.E., F.I.E.E.
Managing Director
GEC-Marconi Electronics Limited
London, England

*resigned as Chairman March 31, 1972

The Annual General Meeting of Shareholders will be held at the Company's Head Office in the City of Montreal, 380 Aberdare Road entrance, on Wednesday morning, August 16, 1972 at 11:00 o'clock.

OFFICERS

*S.M. Finlayson
Chairman

E.O. Herzfeld
Vice-Chairman

L.M. Daley
President and Chief Executive Officer

W. Baillie
Vice President, Products and Markets

E.J. Lang
Treasurer and Comptroller

E.D. Hickin
Assistant Treasurer

J.A. Howlett
Vice President, Organization and Personnel

C.W. Perry
Vice President, Corporate Affairs and Secretary

J.O. Paquette
Assistant Secretary

J.W. Dodds, Ph.D.
Vice President, Telecommunications Division

K.C.M. Glegg
Vice President, Avionics Division

R. MacLeod
Vice President, Special Services Division

D.W.G. Martz
Vice President, Broadcasting Division

REGISTRAR

Montreal Trust Company
Montreal, Canada

TRANSFER AGENT

Canada Permanent Trust Company
600 Dorchester Blvd. West, Montreal, Canada

AUDITORS

Price Waterhouse & Co.
Montreal, Canada

BANKERS

Royal Bank of Canada

Pour obtenir un exemplaire en français de notre rapport aux actionnaires, veuillez écrire au secrétaire, Canadian Marconi Company, 2442, avenue Trenton, Montréal 301, Québec, Canada.

FINANCIAL HIGHLIGHTS

	Year ended March 31		Year ended December 31			
	1972	1971 (3 months)	1970	1969	1968	1967
Sales and revenues	**$57,508,000**	$12,401,000	$72,577,000	$82,055,000	$69,911,000	$66,138,000
Income from operations	**7,571,000**	1,731,000	11,494,000	8,446,000	2,019,000	8,542,000
Depreciation and amortization	**1,739,000**	446,000	2,001,000	2,191,000	2,145,000	2,540,000
Net income:						
from operations before extraordinary items	**782,000**	(556,000)	1,791,000	—	—	—
from operations	**660,000**	(657,000)	926,000	841,000	(4,299,000)	26,000
including special receipt	**—**	—	4,926,000	—	—	—
Number of shares issued	**5,943,192**	5,943,192	5,943,192	5,943,192	5,943,192	5,943,192
Net income per share:						
from operations before extraordinary items	**.13**	—	.30	—	—	—
from operations	**.11**	—	.15	.14	—	—
including special receipt	**—**	—	.83	—	—	—
Dividends	**—**	—	—	—	297,000	594,000
Dividends per share	**—**	—	—	—	.05	.10
Shareholders' equity	**20,671,000**	20,011,000	20,668,000	15,742,000	14,900,000	18,818,000
Shareholders' equity per share	**3.48**	3.37	3.48	2.65	2.50	3.17
Working capital	**17,195,000**	15,500,000	15,768,000	10,463,000	8,227,000	13,112,000

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DIRECTORS' REPORT TO SHAREHOLDERS

RESULTS FOR 1971

The decline in sales which started in the latter part of 1970 continued well into 1971; however, toward the end of that year we began to experience an upward trend which we project will continue in the forthcoming financial year.

Sales of just over $57,500,000 for the year were ahead of our earlier expectations. In our half-yearly statement we forecast a turn-around in earnings and a profit for the year as a whole. In fact, net earnings after tax for the second half were $1,009,000, thus turning the loss of $349,000 sustained during the first six months into a net profit of $660,000 or 11 cents per share. During the year working capital increased by nearly $1,700,000. Additions to fixed assets after deducting disposals were held to around $400,000, and the combination of these facts resulted in the elimination of bank indebtedness by the end of the year.

In order to make the comparison of income statements as meaningful as possible, we are showing as previous year figures the figures for the twelve months ended March 31, 1971 which, as shareholders will recall, do not represent a fiscal year for the Company. It is for this reason that they are shown in the financial statements as unaudited.

DIVIDEND

In these circumstances your directors have felt justified in declaring a dividend of five cents per share in respect of the year 1971/72, payable on June 30, 1972 to shareholders of record as at May 31, 1972.

BROADCASTING

In October we accepted an offer from, and subsequently entered into an agreement with, CHUM Limited of Toronto to purchase an 80% interest in our broadcasting assets. On December 23 the Canadian Radio-Television Commission (CRTC) approved the transfer of our licences, subject to conditions which were not in accordance with the agreement and not acceptable to CHUM; consequently, as announced in January, the agreement was cancelled.

In a further effort to comply with the Order-In-Council on Broadcasting Ownership, in March 1972 we accepted, subject to approval by the CRTC, an offer of $18 million for our Broadcasting Division from Multiple Access Limited of Toronto. The application for transfer of our broadcasting licences to Multiple Access is to be considered by the Commission at a hearing scheduled for June 19 in Kingston, Ontario. We would hope to be able to report on the outcome by the time of the Annual General Meeting.

CURRENT ACTIVITIES

The year's results were achieved against the background of the United States' economic measures of last summer and a continued strengthening of the Canadian dollar against the United States dollar. It was thus particularly important for us to continue the policy, outlined in earlier reports, under which

we are seeking to reduce our dependence on North American military markets and on U.S. markets generally. With this in mind, we have carried out further reorganization of our U.S. subsidiary, Kaar Electronics Corporation, and the cost of closing certain of its facilities has been borne in the year's results. On the other side, we have extended our activities overseas and during the year have sold equipment to no fewer than twenty countries to which we had not sold previously.

Substantial further economies have been effected throughout our organization which have had the desired effect of enabling us to operate profitably at the lower level of activity indicated by current conditions, and should enable us to continue to do so after the further reduction in volume which will ensue when we have ceased to enjoy our broadcasting revenue.

Our specialized Investment Casting Foundry, for whose products our requirements are now much smaller than previously, was sold during the year. This enabled us to reintegrate the Printed Circuit Board Department — which is operating very satisfactorily and whose products are gaining increasing acceptance at home and abroad — into the Avionics Division, thus eliminating the cost of separate divisional management and contributing to a substantial reduction in the number of officers of the Company. In addition, programs reducing manufacturing costs have been and continue to be successfully implemented wherever possible.

NEW PRODUCTS

At the same time we are strengthening our position in our established fields of avionic and communications equipment by developing, with the encouragement of the Federal Government, major new products of international appeal for which we can anticipate a substantial sales volume in the future.

Thus, we have completed the development of a new airborne navigational device known as OMEGA which, when installed in an aircraft, is capable of determining the position of the aircraft at any point in the world with an accuracy of about one mile and will also give instructions to the pilot or to the crew as to the course required to reach any selected destination. Since the equipment costs about one-third of the inertial navigators which are currently in favour for long-range aircraft, we anticipate large sales both to civil and military aircraft operators throughout the world.

A study of the rapidly expanding communication requirements field for speech and data has led us to develop a new advanced microwave link (MCS-6900) which enables us to transmit the maximum amount of information over a given radio link. This equipment is particularly suitable for radio relay communications required by utilities and common carriers. A test link has been operating successfully for some time; a small number of early sales has been made and the equipment is now at the point of going into production.

ORDER BACKLOG

Order backlog at the end of the financial year was in excess of $34 million and, while this is some $6 million lower than the last reported figure, a far smaller proportion is represented by a single contract and the balance of workload is therefore much improved. This fact, coupled with the level of current enquiries, gives us confidence to anticipate an improved result in 1972/73.

DIRECTORS AND OFFICERS

Mr. S.M. Finlayson, who has spent his working life in the service of your Company and has served as Chairman for the past nine years, retired on March 31, 1972 but has agreed to continue as a director of the Company. Your Board wishes to record its appreciation of his outstanding contribution to the Company's affairs.

In February 1972, Mr. Edward J. Lang, Comptroller, assumed the additional responsibility of Treasurer.

TRIBUTE TO STAFF

As indicated, difficult business conditions necessitated stringent economic measures and increased pressures to achieve higher standards of efficiency and productivity during the year. The directors wish to record their appreciation to our employees for their responsiveness to the demands placed upon them under these circumstances.

On behalf of the Board,

E. O. Herzfeld
Vice-Chairman

L. M. Daley
President and
Chief Executive Officer

May 17, 1972
Montreal, Quebec

CONSOLIDATED BALANCE SHEET
CANADIAN MARCONI COMPANY AND SUBSIDIARY COMPANIES

ASSETS	March 31, 1972 (in thousands)	1971
Current assets:		
Cash	**$ 588**	$ 231
Short-term investments, at cost, plus accrued interest (approximates market)	**3,300**	—
Accounts receivable (Note 3)	**16,056**	19,435
Owing by associated companies	**325**	121
Inventories (Note 3)	**9,395**	10,078
Prepaid expenses	**1,805**	1,324
	31,469	31,189
Sundry assets:		
Deferred accounts receivable	**229**	212
Investments in associated companies, at cost less amounts written off	**120**	78
	349	290
Fixed assets:		
Land, buildings and equipment, at cost	**28,648**	29,526
Less: Accumulated depreciation	**16,694**	16,234
	11,954	13,292
	$43,772	$44,771

Approved by the Board:

L.M. Daley, Director

E.O. Herzfeld, Director

AUDITORS' REPORT

To the Shareholders of
Canadian Marconi Company:

We have examined the consolidated balance sheet of Canadian Marconi Company and subsidiary companies as at March 31, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

PRICE WATERHOUSE & CO.
Chartered Accountants

Montreal, May 16, 1972

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 1972 (in thousands)	March 31, 1971 (in thousands)
Current liabilities:		
Bank loans	**$ —**	$ 4,156
Accounts payable and accrued liabilities	**10,781**	8,920
Owing to associated companies	**974**	892
Accrued income taxes (Note 4)	**2,371**	1,662
Sales and excise taxes payable	**148**	59
	14,274	15,689
Deferred income taxes	**380**	524
Long-term debt (Note 5):		
5¾% unsecured sinking fund debentures, series A, due May 1, 1988	**5,219**	5,299
7% unsecured sinking fund debentures, series B, due June 1, 1989	**3,228**	3,248
	8,447	8,547
Shareholders' equity:		
Capital stock —		
Authorized		
7,500,000 shares of $1 each		
Issued		
5,943,192 shares	**5,943**	5,943
Contributed surplus	**4,273**	4,273
Retained earnings (Note 6)	**10,455**	9,795
	20,671	20,011
Contingent liability:		
Accounts receivable under leases discounted — $2,851,000		
	$43,772	$44,771

CONSOLIDATED STATEMENT OF INCOME

	Year ended March 31, 1972	1971 (unaudited)
	(in thousands)	
Sales and revenues:		
Electronic product sales	**$46,125**	$55,693
Broadcasting revenues	**11,383**	9,409
	$57,508	$65,102
Income from operations before the charges shown below (Notes 3 and 8)	**7,571**	10,680
Research and development (net of recoveries)	**3,006**	2,771
Depreciation	**1,739**	1,954
Interest (Note 7)	**627**	1,408
Special inventory adjustment	**—**	740
	5,372	6,873
Income before income taxes and extraordinary items	**2,199**	3,807
Provision for income taxes (Note 4):		
Current	**2,478**	2,415
Deferred	**(1,061)**	530
	1,417	2,945
Net income before extraordinary items	**782**	862
Extraordinary items:		
Loss on exchange due to freeing of the Canadian dollar (net of income taxes $122) (1971 - $1,045) — (Note 2)	**(122)**	(966)
Non-refundable deposit relating to sale of Broadcasting Division (Note 9)	**—**	4,000
Net income	**$ 660**	$ 3,896
Earnings per share:		
Net income before extraordinary items	**$ .13**	$ .15
Net income	**.11**	.65

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended March 31, 1972	1971 (unaudited)
	(in thousands)	
Retained earnings, beginning of year	$ 9,795	$ 5,899
Net income	660	3,896
Retained earnings, end of year (Note 6)	$10,455	$ 9,795

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended March 31, 1972	1971 (unaudited)
	(in thousands)	
Source of funds:		
Operations —		
Net income	$ 660	$ 3,896
Depreciation	1,739	1,954
	$ 2,399	$ 5,850
Application of funds:		
Increase (decrease) in sundry assets	$ 59	($ 120)
Additions to fixed assets (net)	401	1,301
Decrease (increase) in deferred income taxes	144	(124)
Repayment of long-term debt	100	431
Increase in working capital	1,695	4,362
	$ 2,399	$ 5,850

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — PRINCIPLES OF CONSOLIDATION:
The consolidated financial statements include the accounts of Canadian Marconi Company and its subsidiary companies, all of which are wholly owned. The only operating subsidiary is Kaar Electronics Corporation which is engaged in the sale and leasing of marine and land communications equipment in the United States of America.

Note 2 — EXCHANGE:
Current assets and liabilities in United States dollars have been translated into Canadian dollars at the rate of exchange in effect as at March 31, 1972. This rate has also been applied to the fixed assets of the United States subsidiary which are not significant in amount. Amounts entering into results of operations have been translated at average rates.

Exchange losses have been charged against net income. These include $244,000 (1971 — $2,011,000) which is shown as an extraordinary item and results from the effect of the freeing of the Canadian dollar on May 31, 1970 upon revenues of long-term contracts entered into prior to that date.

Note 3 — INVENTORIES:
Inventories may be summarized as follows:

	1972	1971
	(in thousands)	
Contracts and other work in progress, at cost	**$ 3,530**	$ 3,976
Raw materials, at cost, not in excess of market	**1,350**	1,043
Finished products, at lower of cost or net realizable value	**4,515**	5,059
	$ 9,395	$10,078

Profits on major long-term contracts, principally those over $100,000, are recorded on a stage of completion basis based on the ratio of incurred costs to date to the projected total costs of completing the contracts. Unbilled costs and accrued profits, less progress payments, relating to these contracts are included in accounts receivable in the accompanying balance sheet. Full provision has been made for anticipated losses.

Note 4 — INCOME TAXES:
Consolidated income before taxes and extraordinary items has been reduced by the loss of the Company's U.S. subsidiary, which cannot be deducted from the parent company's taxable income. The provision for income taxes is therefore based on the income of the parent company.

Note 5 — LONG-TERM DEBT:
Sinking fund provisions of the series A and B debentures require payments annually in May and June aggregating $237,000 in 1972, 1973 and 1974 and $316,000 in 1975 and 1976. Debentures have been purchased and surrendered for cancellation in full satisfaction of 1972, and in partial satisfaction of 1973, requirements.

Note 6 — RESTRICTIONS UPON PAYMENT OF DIVIDENDS:
The Trust Agreements relating to the series A and B debentures contain certain restrictions upon the payment of dividends. At March 31, 1972 consolidated retained earnings of approximately $8,001,000 were available for distribution.

Note 7 — INTEREST:
Interest expense includes $529,000 (1971 — $542,000) on long-term debt.

Note 8 — DIRECTORS' AND OFFICERS' REMUNERATION:
The remuneration of eleven (1971 - thirteen) directors amounted to $17,700 (1971 — $13,802), and the remuneration of sixteen officers (1971 - seventeen) amounted to $444,431 (1971 — $524,527). In 1972 and 1971 three of the officers were also directors of the Company. None of the directors or officers has received remuneration from any of the Company's subsidiaries.

Note 9 — AGREEMENT FOR SALE OF BROADCASTING DIVISION:
On March 17, 1972 the Company entered into an agreement to sell its Broadcasting Division, subject to the approval of the Canadian Radio-Television Commission (CRTC). This approval had not been received at March 31, 1972 and, accordingly, the assets, liabilities and operating results of the Division for the year are included in the accompanying financial statements. A deposit of $1,000,000 has been placed in trust with the Company, to be refunded in the event that the approval of the CRTC is not received. The deposit is not included in the balance sheet.

The extraordinary credit of $4,000,000 shown in the consolidated statement of income for the year ended March 31, 1971 relates to an earlier proposed sale of the Division which was never consumated.

Note 10 — PRIOR YEAR'S RECLASSIFICATION:
Certain amounts included in current assets and current liabilities in 1971 have been reclassified to conform with the presentation adopted in 1972.

OPERATING DIVISIONS

AVIONICS DIVISION

Engineering, manufacturing and marketing of airborne Doppler sensors, navigation and tactical computers, indicators and altimeters. Manufacturing and marketing of printed circuit boards.

BROADCASTING DIVISION

Operation of TV station CFCF-TV, radio stations CFCF-AM, CFQR-FM and CFCX-SW in Montreal. Production of programs and commercials.

MARINE AND LAND COMMUNICATIONS DIVISION

Engineering, manufacturing and/or marketing of mobile two-way radio and associated base station equipment; hand-held portables and pocket paging units; broadcast and television station equipment; industrial and education closed-circuit television; electronic test instruments; marine radar; loran; depth sounders and fish finders; HF-AM and VHF-FM marine radio telephones; single sideband radios; systems planning, construction, installation and maintenance.

SPECIAL SERVICES DIVISION

Installation of radar, communications and air navigation equipment and systems, and operation of defense communications and detection systems. Repair and overhaul shops for radar, sonar, communications, diesel electric generating equipment, and an approved test equipment repair and calibration laboratory.

TELECOMMUNICATIONS DIVISION

Engineering, manufacturing and marketing of commercial and military land-based microwave communications equipment and associated supporting test equipment.

CMC

CANADIAN MARCONI COMPANY

FIRST NAME IN RADIO-ELECTRONICS

CANADIAN MARCONI COMPANY

Report to Shareholders
March 31, 1971

DIRECTORS

C.E. Belanger, C.A.
Senior Partner
Belanger, Saint-Jacques, Sirois, Comtois & Cie
Sherbrooke, Canada

L.M. Daley
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Vice President, Special Services Division

D.W.G. Martz
Vice President, Broadcasting Division

F.R. Reeves
Vice President, Specialized Components Division

REGISTRAR

Montreal Trust Company
Montreal, Canada

TRANSFER AGENT

Canada Permanent Trust Company
600 Dorchester Blvd. West, Montreal, Canada

AUDITORS

Price Waterhouse & Co.
Montreal, Canada

BANKERS

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Pour obtenir un exemplaire en français de notre rapport aux actionnaires, veuillez écrire au secrétaire, Canadian Marconi Company, 2442, avenue Trenton, Montréal 301, Québec, Canada.

DIRECTORS' REPORT TO SHAREHOLDERS

As shareholders were advised in our 1970 report, we changed our accounting date from December 31 to March 31 to conform with the accounting date of The General Electric Company Limited of England. This report therefore covers the first three months of 1971 only.

This period continued to suffer from the recession in the aerospace industry, the curtailment of governmental expenditures on military programs, and the generally slack conditions in North America and other world markets. In consequence, sales for the first three months of 1971 totalled $12,401,000 compared with $19,876,000 in the corresponding period of 1970. After special write-offs and provisions before tax totalling $740,000, a net operating loss of $657,000 is reported against a profit of $373,000 in the corresponding three months of 1970. These write-offs and provisions result mainly from a more penetrating review of our inventories in the light of lower sales volumes, as well as from obsolescence brought about by the introduction of replacement products. In making these write-offs and provisions, advantage was also taken of the opportunity of bringing our policies of asset evaluation and determination in line with those applied by The General Electric Company Limited.

In our business a three-month period is not long enough to indicate a meaningful trend. Sales in the first quarter of 1970 were exceptionally high and in the first quarter of 1971 unduly depressed. It may therefore be worth drawing to shareholders' attention the fact that over the fifteen-month period, despite the special write-offs and provisions and the continuing effect of the unpegging of the Canadian dollar on our operations, a modest profit was earned. This resulted from a continuous effort to effect operating efficiencies and economies. These have also resulted in a substantial reduction in the amount of working capital employed in the business and our bank indebtedness, which at the peak was over $20 million, was below $5 million at March 31,1971.

As has been stated previously, it has been our policy for some time to become less dependent on the North American market and on military and aerospace programs. To this the closer collaboration with the G.E.C. Group, outlined in our 1970 annual report, is expected to make an important contribution. We are also, as far as possible, orienting our research and development expenditures in a direction which will help us to realize these plans. An important result of this policy is a major international sale of communications products which has helped to increase our current backlog to over $40 million.

A substantial part of these new sales is not for delivery in the current fiscal year. Nevertheless, due to the economies referred to above, our break-even point has been reduced to a level at which we are hopeful of showing profits in excess of those earned on larger operations in the fiscal year 1970.

As a result of the cancellation of the transaction with Bushnell Communications Limited, we are of course continuing to operate the Broadcasting Division, and the Canadian Radio-Television Commission has granted us an extension of our broadcasting licences to the end of 1971. We have meanwhile been exploring the various avenues open to us in order to comply with the current Order-In-Council concerning Broadcasting Ownership and will report to the shareholders as soon as we have definite information to impart.

On behalf of the Board,

L.M. Daley
President and Chief
Executive Officer

May 3,1971
Montreal, Quebec

S.M. Finlayson
Chairman

CONSOLIDATED BALANCE SHEET
CANADIAN MARCONI COMPANY AND SUBSIDIARY COMPANIES

ASSETS

	March 31, 1971	March 31, 1970 (unaudited)
	(in thousands)	
Current assets:		
Cash	**$ 231**	$ 329
Accounts receivable (Note 3)	**19,556**	20,734
Inventories (Note 3)	**9,402**	11,008
Prepaid expenses	**1,324**	1,203
	30,513	33,274
Sundry assets:		
Deferred accounts receivable	**212**	206
Investments in and advances to associated companies, at cost less amounts written off	**78**	204
	290	410
Fixed assets:		
Land, buildings and equipment, at cost	**29,526**	28,996
Less: Accumulated depreciation	**16,234**	15,051
	13,292	13,945
	$44,095	$47,629

Approved on behalf of the Board:

L.M. Daley, Director

E.O. Herzfeld, Director

AUDITORS' REPORT

To the Shareholders of
Canadian Marconi Company:

We have examined the consolidated balance sheet of Canadian Marconi Company and subsidiary companies as at March 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the three months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1971 and the results of their operations and the source and application of their funds for the three months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO
Chartered Accountants

Montreal, May 11, 1971

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 1971	March 31, 1970 (unaudited)
	(in thousands)	
Current liabilities:		
Bank loans (secured — Note 4)	**$ 4,156**	$10,337
Accounts payable and accrued liabilities	**8,244**	8,804
Owing to associated companies	**892**	44
Accrued income taxes (Note 6)	**1,662**	890
Sales and excise taxes payable	**59**	61
Advance payment under agreement for sale of Broadcasting Division	**—**	2,000
	15,013	22,136
Deferred income taxes (Note 6)	**524**	400
Long-term debt (Note 7):		
5.3/4% unsecured sinking fund debentures, series A, due May 1, 1988	**5,299**	5,597
7% unsecured sinking fund debentures, series B, due June 1, 1989	**3,248**	3,381
	8,547	8,978
Shareholders' equity:		
Capital stock-		
Authorized		
7,500,000 shares of $1 each		
Issued		
5,943,192 shares	**5,943**	5,943
Contributed surplus	**4,273**	4,273
Retained earnings (Note 8)	**9,795**	5,899
	20,011	16,115
Contingent liability:		
Accounts receivable under leases discounted - $3,282,000		
	$44,095	$47,629

CONSOLIDATED STATEMENT OF INCOME

	Three months ended March 31, 1971	1970 (unaudited)
	(in thousands)	
Sales and revenues	**$12,401**	$19,876
Income from operations before the charges shown below (Notes 3 and 10)	**$ 1,731**	$ 2,545
Research and development (net of recoveries)	**615**	759
Depreciation	**446**	493
Interest (Note 9)	**289**	400
Special inventory adjustment (Note 5)	**740**	–
	2,090	1,652
Income (loss) before income taxes and extraordinary item	**(359)**	893
Provision for income taxes (Note 6)	**197**	520
Net income (loss) before extraordinary item	**(556)**	373
Extraordinary item:		
Loss on exchange due to freeing of the Canadian dollar (net of income taxes, $108 – Note 2)	**(101)**	–
Net income (loss)	**($ 657)**	$ 373
Earnings per share	–	$.06

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Three months ended March 31, 1971	1970 (unaudited)
	(in thousands)	
Retained earnings, January 1	**$10,452**	$ 5,526
Net income (loss)	**(657)**	373
Retained earnings, March 31 (Note 8)	**$ 9,795**	$ 5,899

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Three months ended March 31, 1971	1970 (unaudited)
	(in thousands)	
Source of funds:		
Operations—		
Net income (loss)	($ 657)	$ 373
Depreciation	446	493
Increase in deferred income taxes	134	–
	(77)	866
Decrease in sundry assets	32	38
Decrease in working capital	268	–
	$ 223	$ 904
Application of funds:		
Additions to fixed assets (net)	$ 116	$ 223
Repayment of long-term debt	107	6
Increase in working capital	–	675
	$ 223	$ 904

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts as at March 31, 1970 are unaudited)

Note 1 – PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Canadian Marconi Company and its subsidiary companies, all of which are wholly owned. The only operating subsidiary is Kaar Electronics Corporation which is engaged in the sale and leasing of marine and land communications equipment in the United States of America.

Note 2 – EXCHANGE: Current assets and liabilities in United States dollars have been translated into Canadian dollars at the rate of exchange in effect as at March 31, 1971. This rate has also been applied to the fixed assets of the United States subsidiary which are not significant in amount. Amounts entering into results of operations have been translated at average rates.
Exchange losses have been charged against net income. These include $209,000 which is shown as an extraordinary item and results from the effect of the freeing of the Canadian dollar on May 31, 1970 upon revenues of long-term contracts entered into prior to that date.

Note 3 – INVENTORIES: Inventories may be summarized as follows:

	1971	1970
	(in thousands)	
Contracts and other work in progress, at cost	$3,300	$4,100
Raw materials, at cost, not in excess of market	1,043	1,198
Finished products, at lower of cost or net realizable value	5,059	5,710
	$9,402	$11,008

Profits on major long-term contracts, principally those over $100,000, are recorded on a stage of completion basis based on the ratio of incurred costs to date to the projected total costs of completing the contracts. Accrued profits are included in accounts receivable in the accompanying balance sheet. Full provision has been made for anticipated losses.

Note 4 – BANK LOANS: Bank loans are secured by assignment of receivables and inventories.

Note 5 – SPECIAL INVENTORY ADJUSTMENT: Partly as a result of the competitive situation and partly as a consequence of a new approach, a re-assesment of the sales potential of certain product lines was carried out. This resulted in a charge to income of $740,000.

Note 6 – INCOME TAXES: Consolidated income before taxes and extraordinary item has been reduced by the loss of the Company's U.S. subsidiary, which cannot be deducted from the parent company's taxable income. The provision for income taxes is therefore based on the income of the parent company. Income taxes deferred at March 31, 1971 by reason of timing differences between accounting and taxable income amount to $1,456,000, of which $932,000 relates to short-term deferments and is included in current liabilities under the caption accrued income taxes in the accompanying balance sheet.

Note 7 – LONG-TERM DEBT: Sinking fund provisions of the series A and B debentures require payments annually in May and June aggregating $208,000 in 1971, $237,000 in 1972, 1973 and 1974 and $316,000 in 1975. In 1970 and 1971 debentures having a face value of $437,000 were purchased in full satisfaction of 1971, and in partial satisfaction of 1972, requirements.

Note 8 – RESTRICTIONS UPON PAYMENT OF DIVIDENDS: The Trust Agreements relating to the series A and B debentures contain certain restrictions upon the payment of dividends. At March 31, 1971 consolidated retained earnings of approximately $7,717,000 were available for distribution.

Note 9 – INTEREST: Interest expense includes $134,000 (1970 – $141,000) on long-term debt.

Note 10 – DIRECTORS' AND OFFICERS' REMUNERATION: The remuneration of nine directors amounted to $3,203 and the remuneration of sixteen officers amounted to $165,537. Three of the officers are also directors of the Company. None of the directors or officers has received remuneration from any of the Company's subsidiaries.

CANADIAN MARCONI COMPANY

FIRST NAME IN RADIO-ELECTRONICS

Printed in Canada

AR29

CANADIAN MARCONI COMPANY

CONSOLIDATED STATEMENT OF INCOME

	(Unaudited) SIX MONTHS ENDED SEPTEMBER 30 1971	1970
	(in thousands)	
SALES AND REVENUES	$24,752	$34,532
Income from operations before undernoted items	$ 2,414	$ 4,613
Less: Research and development (net of recoveries)	1,747	1,733
Depreciation	878	999
Interest	427	800
Income (loss) before income taxes	($ 638)	$ 1,081
Provision for income taxes (recoverable)	(289)	728
NET INCOME (LOSS)	($ 349)	$ 353

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	1971	1970
SOURCE OF FUNDS:		
Operations —		
Net income (loss)	($ 349)	$ 353
Depreciation	878	999
Decrease in sundry assets	28	—
Decrease in working capital	—	23
	$ 557	$ 1,375
APPLICATION OF FUNDS:		
Additions to fixed assets (net)	$ 241	$ 767
Increase in sundry assets	—	357
Repayment of long-term debt	61	251
Increase in working capital	255	—
	$ 557	$ 1,375

TO THE SHAREHOLDERS

During the second quarter of the half year under review, a small profit was earned which reduced the loss shown for the first quarter. The improvement in earnings is expected to continue during the last six months. The back-order position, which had reached a low of $20 million at September 30, 1970, now stands at over $40 million.

On October 8 your Company announced it had agreed with CHUM Limited of Toronto, subject to the approval of the Canadian Radio-Television Commission, to transfer its Broadcasting Division to CFCF Limited, a company to be owned 80% by CHUM Limited and 20% by Canadian Marconi Company. From the sale price of $16,625,000 for the fixed assets and cost for the current assets, we anticipate a material capital gain will be realized but cannot compute it accurately until after completion of the transaction. The CRTC will consider the transfer of the licenses at a hearing commencing November 23.

L. M. Daley
President and Chief Executive Officer

Montreal, Quebec
November 22, 1971

Canadian Marconi Company
2442 Trenton Avenue
Montreal 301, Quebec

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